

## DECISION MEMORANDUM

**TO:** COMMISSIONER KJELLANDER  
COMMISSIONER RAPER  
COMMISSIONER ANDERSON  
COMMISSION SECRETARY  
COMMISSION STAFF  
LEGAL

**FROM:** DAPHNE HUANG  
DEPUTY ATTORNEY GENERAL

**DATE:** MAY 19, 2016

**SUBJECT:** CASE NO. GNR-E-16-01 (Idaho Power, Avista, PacifiCorp)  
ANNUAL REVISION AND UPDATED CALCULATION OF THE  
ADJUSTABLE PORTION OF THE AVOIDED COST RATE FOR  
EXISTING PURPA CONTRACTS

CASE NO. PAC-E-16-09 (PacifiCorp)  
ANNUAL REVISION OF QF VARIABLE ENERGY PRICES PURSUANT  
TO THE 1992 AMENDMENTS OF QF CONTRACTS

The Idaho Public Utilities Commission in Order No. 28708, Case No. GNR-E-99-1, established a methodology for the annual adjustable rate portion of avoided costs for those QF contracts using variable costs associated with Colstrip, a coal-fired generating facility in southeast Montana. For those QF contracts with Colstrip-related fuel costs and variable O&M, future Colstrip variable cost adjustments are to be calculated by using FERC Form 1 Colstrip Unit Coal Costs per megawatt hour (MWh) and adding \$2.00/MWh (the average variable O&M cost of Colstrip plus 20¢/MWh for generation taxes plus a five percent (5%) adjustment for line loss). As computed by Commission Staff, the Colstrip related adjustable rate will change from 16.68 mill/kWh to 15.61 mill/kWh. The same calculated rate revision under the avoided cost methodology is used by Avista, PacifiCorp dba Rocky Mountain Power, and Idaho Power Company. This change in the variable rate affects existing contracts under the previous SAR methodology.

The adjustable portion of the avoided cost rates under the Sumas-based methodology is based on annual average gas prices indexed at Sumas, Washington. As reported by Avista, the indexed gas prices have decreased by \$2.008/MMBtu. The approved gas price of \$5.10/MMBtu

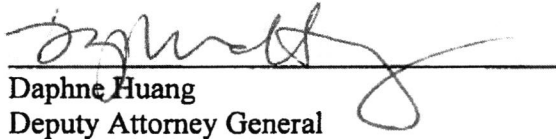
minus the \$2.008/MMBtu results in a gas price of \$3.092/MMBtu for the 2016-2017 year. This equates to a SAR fuel cost of 21.95 mill/kWh as used in the model.

The Commission Staff calculated changes to the annual adjustable rate portion of avoided costs for those QF contracts, using variable costs associated with Colstrip and Sumas, and provided the respective utilities with the updates for review by letter dated May 12, 2016. Avista, Idaho Power, and PacifiCorp responded by letter that Staff's calculations are correct.

In accordance with Order No. 29316, the adjustable portion of the avoided cost rate for PacifiCorp contracts with 1992 amendments has also been recomputed. Beginning on July 1, 2003, the adjustable portion for these contracts was ordered to be equal to the average cost of fuel for the Carbon, Hale, Naughton, Huntington, and Hunter generating plants, including a variable O&M component of \$1.51 but exclusive of generation taxes and a line loss adjustment. The variable energy rate applicable to deliveries commencing July 1, 2016 extending through June 30, 2017 has been computed to be \$23.61/MWh, an increase from \$21.75 last year.

#### **COMMISSION DECISION**

Under avoided cost methodology the adjustable portion of avoided cost rates for existing contracts is calculated annually for an effective date of July 1. Avista, Idaho Power, and PacifiCorp agree with Staff's proposed calculations. Also adjusted annually is the adjustable portion of avoided cost rates for existing PacifiCorp contracts with year 1992 amendments. PacifiCorp for those contracts has computed the new variable energy rate. Does the Commission agree with the proposed changes in the variable rates?

  
Daphne Huang  
Deputy Attorney General

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**COLSTRIP ADJUSTABLE RATE CALCULATION** Updated

For Period 7/1/16-6/30/17

Colstrip Fuel Cost from Avista FERC Form 1 for CY 2015

line 12	Net Generation (kwh)	1,689,986,000
line 20	Fuel	<u>\$22,992,450</u>
	Fuel cost per kwh	\$0.013605

Fuel Cost per MWh	\$13.6051
Variable O&M, Gen. Tax, 5% line loss per MWh	<u>\$2.0000</u>
Total Colstrip Adjustable Rate	\$15.6051

Reference GNR-E-99-1 O.N. 28708 4/17/2001

**Average Gas Prices at Sumas, Washington from Inside FERC publication  
(\$/MMBtu)**

**Calculating the 2016-2017 Avoided Cost Adjustable Rate**

	<u>2014</u>	<u>2015</u>
Jan	\$4.89	\$3.23
Feb	\$5.12	\$2.56
Mar	\$5.78	\$2.40
Apr	\$4.37	\$2.15
May	\$4.53	\$2.13
Jun	\$4.28	\$2.48
July	\$4.37	\$2.21
Aug	\$3.69	\$2.43
Sep	\$3.85	\$2.41
Oct	\$3.91	\$2.41
Nov	\$3.62	\$2.11
Dec	\$4.68	\$2.47
Average	\$4.424	\$2.416

Actual Annual Adjustment:

$$\$5.10 - (\$4.424 - \$2.416) = \underline{\$3.092}$$

Note:

\$6.94/MMBtu = 2007-08 Approved Rate

\$7.18/MMBtu = 2008-09 Approved Rate

\$9.00/MMBtu = 2009-10 Approved Rate

\$4.62/MMBtu = 2010-11 Approved Rate

\$4.99/MMBtu = 2011-12 Approved Rate

\$4.60/MMBtu = 2012-13 Approved Rate

\$3.45/MMBtu = 2013-14 Approved Rate

\$4.35/MMBtu = 2014-15 Approved Rate

\$5.10/MMBtu = 2015-16 Approved Rate

PacifiCorp

Total Variable Energy Rate  
for 2016 / 2017

	Carbon	Naughton	Huntington	Hunter	Totals
Fuel Cost (\$)	\$ 8,451,578	\$ 97,849,265	\$ 158,215,307	\$ 169,070,144	\$ 433,586,294
2015 FERC FORM 1 - Page 402 Line 20					
Generation (MWH)	392,328	4,899,321	5,988,318	8,335,613	19,615,580
2015 FERC FORM 1 - Page 402 Line 12					
Average Fuel Cost (\$/MWH)					
Variable O&M					
					\$ 22.10 /MWH
					\$ 1.51 /MWH
					\$ 23.61 /MWH

Total Variable Energy Rate for 2016 / 2017

For deliveries commencing July 1, 2016 extending through June 30, 2017  
12 PacifiCorp/QFs contracts with approved 1992 amendment language